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In the Supreme Court of the United States

XU LIU and XIAOMEI YANG,

Petitioners,

v.

PRICE WATERHOUSE LLP and COMPUTER LANGUAGE RESEARCH, INC.,

Respondents.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Seventh Circuit

BRIEF AMICUS CURIAE OF THE INTELLECTUAL PROPERTY LAW ASSOCIATION OF CHICAGO IN SUPPORT OF NEITHER PARTY

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PRELIMINARY STATEMENT

The Intellectual Property Law Association of Chicago ("IPLAC") submits this brief as Amicus Curiae in the above-captioned action in support of Petitioner's request for, and urges the granting of, certiorari, and is not in support of either party to the present action.[1]

STATEMENT OF CONSENT

IPLAC has received the consent of all parties to this proceeding to the filing of this Brief Amicus Curiae.

INTEREST OF THE AMICUS

IPLAC is the oldest intellectual property law association in the nation, having been founded in 1884. Its 850 or so members include law firm attorneys, sole practitioners, corporate attorneys, law school professors, law students, and others interested in the field of Intellectual Property.

IPLAC is a not-for-profit organization dedicated to the advancement of knowledge and ethics in the field of patent, trademark, copyright, trade secret, and associated fields of law. Among its chief aims are to inform and aid in the development and administration of these laws and to advance and encourage principles designed to maintain the usefulness of these laws insofar as the

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[1] Pursuant to Rule 37.6, IPLAC states that: (1) counsel to a party did not author this brief, in whole or in part; and (2) no person or entity other than IPLAC and its counsel made a monetary contribution to the preparation or submission of this brief.

United States citizenry is concerned. IPLAC also attempts to act as a guide to the practical effects of interpretation of intellectual property laws by various courts and by the United States Patent and Trademark Office (PTO). IPLAC further provides a medium for the exchange of views on intellectual property law between those practicing in the field and the public at large.

Consistent with its stated mission, IPLAC submits this brief in the hope that it may assist this Court in understanding the significant impact of the decision of the Seventh Circuit in this case on the copyright and business community, wholly apart from and without regard to the immediate interests of either party hereto. It is IPLAC's opinion that the decision below has created a conflict among the circuits in connection with interpretation of Federal Copyright Law, Title 17 U.S.C. Sec. 101 *et seq.* (the "Copyright Act") and more particularly with Sec. 204(a) of the Copyright Act, a section that has experienced a different interpretation in other circuits. Unless this interpretation is resolved by this Court through review of this decision, uncertainty over interpretation of U.S. copyright law will continue and proliferate, and those creators who believe they own the copyright in their works may find themselves bereft of their rights, depending on the Federal Circuit in which they reside.

SUMMARY OF ARGUMENT

Sec. 201 of the Copyright Act provides in subsection (a) that copyright in a protectable work vests initially in the author or authors of the work. Section 103(a) provides that the subject matter of copyright includes compilations and derivative works, "but protection for a work

employing pre-existing material in which copyright subsists does not extend to any part of the work in which such material has been used unlawfully." Section 204(a) provides that a transfer of copyright ownership, other than by operation of law, is not valid unless an instrument of conveyance, or a note or memorandum of the transfer, is in writing and signed by the owner of the rights conveyed or such owner's duly authorized agent. As explained more fully in the discussion below, the net effect of these provisions is that (1) the creator of an eligible work is entitled to copyright ownership; (2) the creator of a derivative work prepared with the authority of the owner of the copyright in the underlying work is entitled to ownership of the copyright in those lawful portions of the derivative work that are not simply repetitions of the underlying work, and (3) any transfer of copyright ownership, including ownership of a copyright in a derivative work, must be accomplished through a written instrument of conveyance signed by such owner.

The Circuit Court in this case determined that (1) copyright ownership did not vest in the creator of a derivative work, and derivative authors are the "*presumptive* owners of copyright rights in their contribution" (emphasis added); (2) that the creator of a derivative work may adjust its copyright right so that there is no vesting, and (3) the owner of the copyright in the underlying work may own the copyright in the newly-created portions of the derivative work, without the necessity of a written instrument of conveyance, or note or memorandum of the transfer.

IPLAC does not take a position here as to how this Court should rule in this matter, but instead urges that this Court review, comment on and resolve the questions

of whether the copyright in a derivative work may be owned by the owner of the copyright in the underlying work in the absence of an express written instrument as required by the Copyright Act. IPLAC believes that interpretation of the appropriate sections of the Copyright Act relating to vesting, ownership and transfer are of especial importance in this electronic era. The development of derivative works such as software improvements, movies based on books and myriad variations on this theme make the economic impacts of derivative work ownership severe and important, since that ownership can be measured in millions if not billions of dollars.

ARGUMENT

I. IS THE COPYRIGHT ACT REQUIREMENT OF A WRITTEN TRANSFER OF COPYRIGHT AN ABSOLUTE?

Simply stated, the lower court's decision in this cause raises the question of whether a transfer of copyright ownership must be effected as clearly prescribed in the Copyright Act, or whether notwithstanding such prescription, a transfer may be effected in other ways, such as by determining the intent of the transferor and proposed transferee. The ruling below adopts the latter position. Such a ruling, if not clarified by this Court, could affect interstate commerce in a manner that may have serious economic consequences.

We begin with the statute. 17 U.S.C. Sec. 102(a) provides that:

> Copyright protection subsists, in accordance with this title, in original works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can

> be perceived, reproduced, or otherwise communicated, either directly or with the aid of machine or device.

Section 103(b) states:

> The copyright in a compilation or derivative work extends only to the material contributed by the author of such work, as distinguished from the preexisting material employed in the work, and does not imply any exclusive right in the preexisting material. The copyright in such work is independent of, and does not affect or enlarge the scope, duration, ownership or subsistence of, any copyright protection in the preexisting material.

Section 201(a) of the Act provides: "Copyright in a work protected under this title vests initially in the author or authors of the work. . . ." Section 204(a) of the Act provides:

> A transfer of copyright ownership, other than by operation of law, is not valid unless an instrument of conveyance, or a note or memorandum of a transfer, is in writing and signed by the owner of the rights conveyed or such owner's duly authorized agent.

Among the respected authorities in the copyright field, in 1 *Nimmer on Copyright* Sec. 3.01, after quoting the definition of a derivative work as set forth in the statute, it is stated:

> It follows then, that any work based in whole, or in substantial part, upon a pre-existing 'underlying' work, if it satisfies the requirements of originality discussed below and is not itself an infringing work, will be separately copyrightable.

As is also stated in 1 *Nimmer on Copyright*, Section 3.04[A], "copyright in a derivative or collective work covers only those elements contained therein that are original with the copyright claimant." (Citations omitted.) Finally, as this Court has stated in *Stewart v. Abend*, 495 U.S. 207, 223 (1990), the "aspects of a derivative work added by the derivative author are that author's property."

In the case presented for review by Petitioners, there was a jury finding that the program called the China RevUp 32 program was a derivative work. APP. C. 15.

Applying a variation of syllogistic logic to the above premises:

1. Copyright ownership vests initially in the creator of an eligible work;

2. Derivative works that contain sufficient originality are eligible works;

3. Copyright ownership vests in one who creates a derivative work with the permission of the owner of an underlying work;

4. A transfer of copyright ownership, whether of an underlying work or a derivative work, is not valid unless an instrument of conveyance is signed by the owner of the rights conveyed.

Thus, *a priori*, in order for the owner of the copyright in a derivative work to be divested of that ownership, there must be an instrument of conveyance signed by that owner.

The ruling below states that:

A. "... the Copyright Act makes authors of derivative works the *presumptive* owners of copy-

right rights in their contribution. . . ." (Emphasis added.)

B. The Copyright Act "also allows parties to adjust those rights by contract."

C. It is proper to consider "the parties' intent" in order to determine the respective copyright rights of the creators, i.e., whether the author of the underlying work is entitled to own the copyright in the derivative work.

The ruling below concludes that the owner of the underlying work is able to own the derivative work, notwithstanding the absence of an instrument of conveyance signed by the author of the derivative work. This conclusion is buttressed by citing 1 *Nimmer on Copyright* Sec. 3.06, at 3-34.26 at 26(1) (2002), which states:

> The right to claim copyright in a non-infringing derivative work arises by operation of law, not through authority from the copyright owner of the underlying work. *Nonetheless, if the pertinent agreement between the parties affirmatively bars the licensee from obtaining copyright protection even in a licensed derivative work, that contractual provision would appear to govern.*

(Emphasis in original.) However, the phrase "affirmatively bars" would seem to indicate that there must be an actual expressed bar to ownership by the creator of the derivative work. Also, the footnote to that quotation reads:

> If the licensee promises not to claim copyright in the derivative work, to do so could give rise at a minimum to an action for breach of contract. See Sec. 10.15[B] *infra*. Moreover, if not claiming

> copyright in the derivative work is a condition to the license, a violation of that condition might void the license altogether, thereby rendering the making of the derivative work itself an act of copyright infringement. See Sections 8.02 and 8.09 *infra*. It would thereupon follow that no copyright could be claimed in the derivative work.

Nimmer states that there must be an affirmative provision barring the licensee from obtaining copyright protection, but even then, it would seem the express requirement of Sec. 204(a) is being ignored.

In other Federal circuits, the effect of most rulings is that in accordance with statutory requirements, once copyright ownership vests, divestiture of that ownership must be by written instrument. The Eleventh Circuit has agreed with this principal in *Arthur Rutenberg Homes, Inc. v. Drew Homes, Inc.*, 29 F.3d 1529, 1530 (see A11 1994). In that case, there was a prior oral agreement that an architectural plan prepared by an independent firm would belong to the builder. The Eleventh Circuit, after examining the intent of the parties regarding ownership of the work, determined that the original owner of the copyright in the drawing was its creator, and the only way the builder would own the copyright was by a writing signed by the creator. Thus, the requirement of the Copyright Act trumped the intent of the parties.

In accordance with Sec. 201(a) of the Copyright Act, ownership in derivative works can come about in many ways. For example, in a case involving the contribution of special effects to a movie, the Ninth Circuit has held that:

> Where a non-employee contributes to a book or movie, as *Effects* did here, the exclusive rights of

> copyright ownership vest in the creator of the contribution, unless there is a written agreement to the contrary. (Citing *Community for Creative Non-Violence v. Reid*, 109 S.Ct. at 2173.) *Effects Associates, Inc. v. Cohen*, 908 F.2d 555 (9th Cir. 1990), *cert. denied*, 498 U.S. 1103, 111 S.Ct. 1003 (1991).

Effects goes on to rule that "Absent an express transfer of ownership, a contributor who is not an employee retains ownership of his copyright." 908 F.2d at 558.

The express written transfer required by the Copyright Act may take several forms, but most of the decisions dealing with it do not depart from the necessity that it be there. The lower court's decision does not require it, and does not alleviate any uncertainty by so doing. The opposite is true; can anyone who enters into an agreement to create a derivative work for another be certain that at some later date, even without an express provision referring to the derivative work copyright (as distinguished from the embodiment of the copyright, such as a copy of a source code, or a book), the grantor of permission will claim that it was the intent of the parties that the grantor own the copyright? And can the grantor own copyright in the derivative work despite the absence of what Prof. Nimmer calls an "express bar," or for that matter anything that might be its equivalent? Would an "express bar" be the equivalent of the statutory requirement that a transfer of ownership must be in writing?

On the other side of this particular coin, logic supports the principle that where two parties agree in a signed written instrument signed by them that one of the parties conveys her ownership in a derivative work to be created by her to the owner of the copyright in the

underlying work, this is sufficient to effect a transfer of ownership. The requirements of the Copyright Act may be met by this sort of arrangement; there is a written instrument of conveyance signed by the owner of the expectant copyright rights under the Act's Sec. 204(a).

But where an underlying agreement does not mention the word "copyright," and does not contain the written signature of the creator of a derivative work (in whom copyright rights vest under Sec. 201(a)), is that writing sufficient to convey the derivative work copyright to the owner of the underlying work? And where an underlying agreement refers to ownership of the physical source code, but not to ownership of the copyright in it, does that satisfy the requirements of Sec. 204(a)? As the Copyright Act specifically provides in Section 202:

> Ownership of a copyright, or of any of the exclusive rights under a copyright, is distinct from ownership of any material object in which the work is embodied. The transfer of ownership of any material object, including the copy or phonorecord in which the work is first fixed, does not of itself convey any rights in the copyrighted work embodied in the object. . . .

Because the ruling in this case appears to run counter to the explicit requirements of the Copyright Act, as well as the ruling of the Eleventh Circuit in *Arthur Rutenberg Homes, Inc. v. Drew Homes, Inc., supra*, a cloud of uncertainty has been placed in front of those requirements. And that cloud will, unless dissipated by this Court, inflict severe economic consequences on a broad section of U.S. and global Internet Commerce.

II. THIS COURT'S REVIEW IS NEEDED TO CLARIFY THE SCOPE OF RIGHTS FOR PREPARERS OF DERIVATIVE WORKS.

The decision that the requirements of Secs. 201(a) and 204(a) of the Copyright Act may be bypassed, if left unclarified, will profoundly impact copyright law. For example, does the requirement in Sec. 204(a) of the Copyright Act that an instrument of conveyance must be in writing and signed by the owner of the rights conveyed, mean "sometimes" or "without exception?" Can the "intent" of the parties determine whether the vesting rights provided in Sec. 201(a) may be bypassed? Can the grantor of permission to prepare a derivative work claim copyright ownership in the derivative work where the latter work exceeds the limits of the permission? In other words, does preparation of a derivative work that exceeds the limits of permission mean that copyright ownership never vested in its creator, and thus vests in one who is not its creator? Is such a work capable of copyright protection at all?

The resolution of questions such as these is of prime importance because the preparation of derivative works generally has extremely important economic value. Many motion pictures are derivative of the novels, poems or even songs upon which they are based. Many advertising jingles are derivative of the popular songs that preceded them. Some television series are derivative of the novels or motion pictures upon which they are based. Many of the software programs used by industry today are built on top of, and are derivative of, other and more basic software programs. The economic importance of clarification regarding the creation and ownership of derivative works is vital for the guidance of companies large and small in interstate commerce. The spectre of uncertainty raised by the apparent ability to bypass statutory re-

quirements under ill-defined circumstances gives rise to the plea of IPLAC that this Court review this case and provide ultimate clarity and guidance for all creators of derivative works.

CONCLUSION

The Amicus respectfully urges that this Court grant Petitioner's Petition for Certiorari and agree to hear and decide this case.

Respectfully submitted,

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